

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

EXECUTIVE SUMMARY

<p>Applicant: Scripps Health (“Scripps”) San Diego, California (San Diego County)</p>	<p>Amount Requested: \$290,000,000 Date Requested: April 28, 2005 Requested Loan Term: 30 years Resolution Number: F- 309</p>																												
<p>Project Sites: Scripps Memorial Hospital La Jolla, Scripps Green Hospital, Scripps Mercy Hospital, Scripps Mercy Hospital Chula Vista</p> <p>Facility Types: Acute care, skilled nursing and outpatient facilities.</p> <p>Obligated Group: The Obligated Group consists of four acute care facilities on five campuses, affiliated business services, and a clinic network that operates 11 clinical sites.</p>																													
<p>Uses of Bond Proceeds: Scripps intends to use bond proceeds to refund Authority debt, to construct various facilities including an imaging pavilion and parking structures, and to purchase equipment.</p>																													
<p>Type of Issue: Negotiated public offering with variable rate bonds (Series A) and auction rate bonds (Series B-F).</p> <p>Credit Enhancement: Bond insurance, if economically feasible; Ambac commitment received.</p> <p>Expected Credit Rating: AAA (S&P) and Aaa (Moody’s), based on bond insurance <i>(expected underlying rating of A [S&P] and A3 [Moody’s])</i></p> <p>Senior Underwriter: Citigroup Global Markets, Inc.</p> <p>Bond Counsel: Orrick, Herrington & Sutcliffe LLP</p>																													
<p>Financial Overview: Scripps has demonstrated profitability in our review period contributing to sizable unrestricted net assets, strong liquidity, and modest leverage. Proforma debt service coverage indicates an ability to manage this debt.</p>																													
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																													
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$290,000,000 for Scripps Health subject to a bond rating of at least an “A” rating by a nationally recognized rating agency.</p>																													

STAFF SUMMARY AND RECOMMENDATION

Scripps Health

April 28, 2005

Resolution Number: F-309

I. PURPOSE OF FINANCING: Scripps intends to use bond proceeds to construct various facilities including an imaging pavilion and parking structures, purchase equipment, and to refund Authority debt.

Refunding.....\$197,050,000

Scripps intends to current refund the Authority’s Series 1985B, 1991A, 1992A, 1993A bonds in their entirety as well as a portion of the 2001A Series bonds and to advance refund the 1998C bonds. Any expected savings will be minimized due to extended maturity dates of the new bonds. Approximately \$101 million of the refunded debt is fixed-rate, with rates ranging between 4.5% and 6.4%.

Construction \$93,000,000

Scripps intends to construct several new facilities, including parking structures at Mercy (\$19 million), La Jolla (\$18 million) and Encinitas (\$12 million), as well as an imaging pavilion at La Jolla (\$11 million). Scripps also plans to establish cardiac catheter laboratories at several sites (\$23 million).

Purchase Equipment..... \$3,000,000

Scripps plans to purchase equipment, including archiving and communications equipment.

Insurance Premium/ Fee \$7,062,000

Financing Costs \$2,469,000

Cost of Issuance \$1,768,000
Underwriters Discount 701,000

Total Uses of Funds..... \$302,581,000

Structure of Financing:

- Series A: Variable rate demand notes. Liquidity provider expected (JP Morgan).
- Series B-F: Auction rate securities.
- Swap agreements have been executed by Scripps and Citibank, in order to convert a portion of Scripps variable rate debt to a fixed rate.
- Bond insurance expected (Ambac).
- Maturities up to 30 years.
- Negotiated public offering.
- Joint and several obligation of Obligated Group.

II. FINANCIAL STATEMENTS AND ANALYSIS

Scripps Health
Combined Statements of Operations (\$000's)
(Unrestricted)

	For the five months ended 2/28/2005 (Unaudited)	For the year ended September 30,		
		2004	2003	2002
Unrestricted Revenue:				
Healthcare delivery	\$ 552,076	\$ 1,264,142	\$ 1,159,917	\$ 1,130,987
Other operating revenue	22,709	50,678	63,116	62,254
Investment income	19,277	12,585	8,874	6,373
Contributions	2,434	1,581	1,304	1,600
Gain on sale of property	1,401	206	704	5,674
Equity released from restrictions used for operations	6,946	23,476	18,674	18,995
Total revenues	<u>604,843</u>	<u>1,352,668</u>	<u>1,252,589</u>	<u>1,225,883</u>
Operating Expenses:				
Wages and benefits	255,335	587,978	551,276	491,243
Supplies	110,709	255,713	238,829	218,282
Services	144,458	346,175	341,692	357,922
Provision for uncollectible accounts receivable	22,699	58,354	41,770	68,594
Depreciation and amortization	22,879	53,204	48,860	53,815
Interest	4,818	10,194	10,550	12,667
Other than temporary decline in investments	-	-	1,164	6,072
Total operating expenses	<u>560,898</u>	<u>1,311,618</u>	<u>1,234,141</u>	<u>1,208,595</u>
Income from operations	43,945	41,050	18,448	17,288
Unrealized gains (losses) on investments	9,012	17,170	25,368	(8,388)
Other gains (losses), net	-	8,442	2,317	3,771
Increase in unrestricted net assets	<u>52,957</u>	<u>66,662</u>	<u>46,133</u>	<u>12,671</u>
Unrestricted net assets, beginning of year	<u>535,913</u>	<u>469,251</u>	<u>423,118</u>	<u>410,447</u>
Unrestricted net assets, end of year	<u>\$ 588,870</u>	<u>\$ 535,913</u>	<u>\$ 469,251</u>	<u>\$ 423,118</u>

Scripps Health
Combined Statements of Financial Position (\$000's)

		As of September 30,		
	As of 2/28/05 (Unaudited)	2004	2003	2002
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 85,643	\$ 66,862	\$ 38,228	\$ 43,278
Accounts receivable, net	180,542	178,235	184,561	148,151
Other current assets	54,406	54,732	39,819	37,900
Total Current Assets	320,591	299,829	262,608	229,329
Investments	376,041	354,550	323,639	287,769
Property, plant, and equipment, net	477,514	473,082	458,504	463,117
Other assets	121,813	124,439	130,156	134,502
Total Assets	\$ 1,295,959	\$ 1,251,900	\$ 1,174,907	\$ 1,114,717
<u>Liabilities & Equity</u>				
Current Liabilities:				
Current portion of long term debt	\$ 11,308	\$ 7,746	\$ 27,640	\$ 7,954
Accounts payable	53,773	60,286	52,793	56,740
Accrued liabilities	152,956	160,374	140,379	143,980
Total current liabilities	218,037	228,406	220,812	208,674
Long-term debt	300,799	309,648	315,682	323,437
Other liabilities	46,067	45,683	41,086	43,964
Total Liabilities	564,903	583,737	577,580	576,075
Unrestricted equity	588,870	535,913	469,251	423,118
Temporarily restricted equity	85,527	75,832	72,163	61,754
Permanently restricted equity	56,659	56,418	55,913	53,770
Total equity	731,056	668,163	597,327	538,642
Total Liabilities & Equity	\$ 1,295,959	\$ 1,251,900	\$ 1,174,907	\$ 1,114,717

Financial Ratios:

	Proforma ^(a)			
Debt Service Coverage (x)	4.16	5.90	4.20	5.87
Debt/Unrestricted Net Assets (x)	0.86	0.59	0.73	0.78
Margin (%)		3.0%	1.5%	1.4%
Current Ratio (x)		1.31	1.19	1.10

^(a) Recalculates September 2004 audited results to include the impact of this proposed financing. Ratios include \$50 million in additional borrowings planned in 2005.

Financial Discussion:

- **Note regarding financial statements: The financial statements above, include non-Obligated Group members (The Whittier Institute for Diabetes, Scripps Clinic Health Plan Services and Mercy Hospital Foundation). Obligated Group members net assets comprise 98% of total net assets of Scripps Health (as of September 30, 2004) and 96% of total revenue. The obligated group financial statements are attached as Exhibit A to this staff report. The discussion, below, is based on financial statements for Scripps Health.**

Scripps Health has demonstrated profitability in our review period contributing to sizable unrestricted net assets, strong liquidity, and modest leverage.

Scripps has exhibited consistent profitability in the three years ended September 30, 2004, with a 3.0% margin for fiscal 2004. Total revenue has increased by 10% from 2002 to 2004, with patient revenues increasing by 12%. Scripps' position has been strengthened by deriving a significant amount of revenue from contributions and investment income.

Fiscal 2004 was an especially profitable year, largely due to payer contract renegotiations and conversion from capitated contracts. Scripps remains liquid, even after paying-down \$20 million of a line of credit in 2004. By 2013, Scripps will have significant seismic compliance costs, which it intends to fund with contributions and operating reserves.

A proforma debt service coverage ratio of 4.16x indicates an ability to manage this debt.

In addition to a satisfactory proforma debt service coverage ratio of 4.16x (based on audited 2004 figures), unaudited interim results indicate strong growth in net income. Leverage will remain moderate with a proforma debt to net assets of 0.86x. For 2004, the obligated group's unaudited statements likewise indicate positive operating income and satisfactory debt service coverage.

III. UTILIZATION STATISTICS:

The following table sets forth selected historical utilization statistics of Scripps Health acute care hospitals for fiscal years ended September 30, 2002, 2003 and 2004 and for the five-month period ended February 28, 2005.

	Fiscal Year Ended September 30,			Five Months
	2002	2003	2004	Ended
				2/28/05
Inpatient Activity				
Licensed Beds	1,435	1,435	1,435	1,435
Available Beds	1,299	1,299	1,299	1,299
Patient Days	316,118	329,587	320,961	126,438
Average Daily Census	866	903	877	837
Occupancy Rate (Available Beds)	67%	70%	68%	64%
Inpatient Surgery Cases	21,207	20,620	20,077	8,069
Outpatient Activity				
Outpatient Surgery Cases	27,112	28,017	28,159	10,545
Emergency Room Visits	136,796	137,568	143,993	58,530
Clinic Office & Ancillary Visits	885,375	895,516	905,557	367,193

IV. ORGANIZATION:

Background: Scripps Health is a health care delivery network located in San Diego County that includes four acute-care hospitals on five campuses, the Scripps Clinic, outpatient facilities, an ambulatory care network, home health care, associated support services and more than 2,600 affiliated physicians. Scripps Health dates back to 1924 when Ellen Browning Scripps founded both Scripps Memorial Hospital (now known as Scripps Memorial Hospital La Jolla) and Scripps Metabolic Clinic in La Jolla.

Obligated Group:

Scripps, the sole member of the "Obligated Group" owns and operates four acute hospitals, affiliated business services and Scripps Clinic that operates in 11 clinical sites. The members of Scripps are jointly and severally liable for substantially all of Scripps debt under the terms of a Master Indenture. The current acute care facilities and other operating unit members of Scripps are listed below.

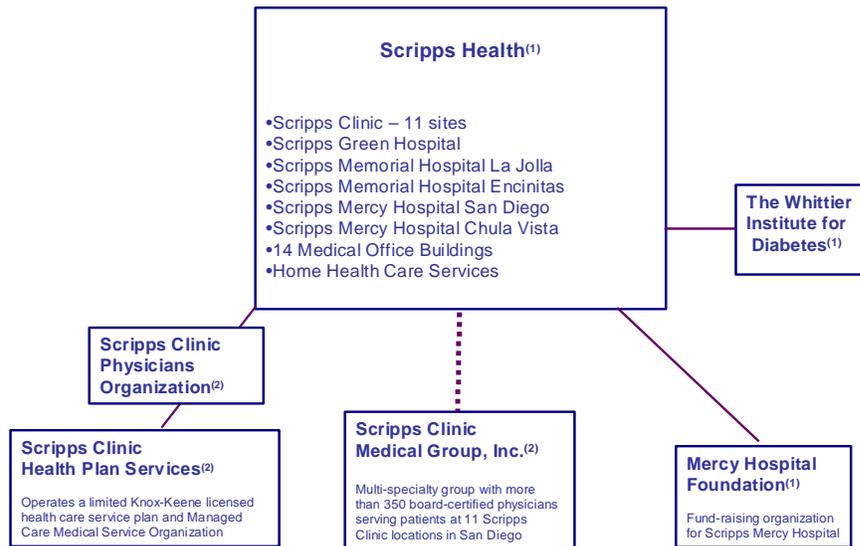
<u>Acute Care</u>	<u>Location</u>
1. Scripps Memorial Hospital	La Jolla
2. Scripps Memorial Hospital	Encinitas
3. Scripps Mercy Hospital	Chula Vista
4. Scripps Green Hospital	La Jolla
5. Scripps Mercy Hospital	San Diego

<u>Other Operating Units</u>	<u>Location</u>
1. Scripps Health Campus Point	San Diego
2. Scripps Home Health Care Services	San Diego
3. Scripps Health Shared Services	San Diego

The following related entities are not Members of the Obligated Group: The Whittier Institute for Diabetes, Scripps Clinic Health Plan Services and Mercy Hospital Foundation. Scripps Health contracts for professional service with the Scripps Clinic Medical Group, Inc.

Organization Chart

An organization chart for Scripps Health depicting the entities that are subordinate corporations or organizations affiliated by contract with Scripps Health is shown below. Scripps Health is comprised of multiple operating divisions including: Scripps Clinic, Scripps Green Hospital, Scripps Memorial Hospital La Jolla, Scripps Memorial Hospital Encinitas, Scripps Mercy Hospital (San Diego and Chula Vista campuses) and other business units. Scripps Health Foundation, a department of Scripps Health, promotes philanthropic support for Scripps Health.



(1) Not for Profit, 501(c)(3) Corporation
 (2) For Profit Corporation

— 100% owned or sole corporate member
 ■ ■ ■ ■ Contract – Professional Service Agreement

Delivery System Services

The following is a description of inpatient, outpatient and affiliated physician services provided at Scripps Health facilities.

Scripps Memorial Hospital La Jolla. Established by Ellen Browning Scripps in 1924, Scripps Memorial Hospital La Jolla is one of San Diego County's six designated trauma centers. The hospital offers a wide range of clinical and surgical services including: 24-hour emergency services; intensive care; interventional cardiology and radiology; radiation oncology; cardiothoracic and orthopedic services; neurology; ophthalmology; and mental health and psychology services. Scripps Memorial Hospital La Jolla has 372 acute-care licensed beds and more than 2,200 employees. A wide range of specialty services and programs are located on the hospital's campus, including The Whittier Institute for Diabetes.

Scripps Mercy Hospital. Scripps Mercy Hospital, comprised of Scripps Mercy Hospital San Diego and Scripps Memorial Hospital Chula Vista, is a 700-bed hospital, with 650 general acute-care beds and 50 acute-psychiatric beds.

Scripps Mercy Hospital was established in 1890 by the Sisters of Mercy and joined Scripps Health in 1995. Scripps Mercy Hospital (San Diego campus), one of six designated trauma centers in San Diego County, has 517 acute-care licensed beds. The hospital's services include bariatric surgery, cancer care, endoscopy, intensive care, neurology, nuclear medicine, ophthalmology, orthopedics, plastic surgery, radiology, rehabilitation, respiratory care and urology. Scripps Mercy Hospital Chula Vista joined Scripps Health in 1986. The facility has 183 acute-care licensed beds and recently added more than 40,000 square feet of space, including a new 24-hour emergency department, intensive care unit, laboratory and cardiac catheterization laboratory. Other services include A Level II neonatal intensive care nursery for low birth-weight babies, obstetrics and gynecology; rehabilitation, cancer care services, inpatient and outpatient radiology, and a full range of surgical services.

Scripps Memorial Hospital Encinitas. Scripps Memorial Hospital Encinitas, with 140 acute-care licensed beds, joined Scripps Health in 1978. Scripps Memorial Hospital Encinitas offers a full range of clinical and surgical services including 24-hour emergency services, intensive care, cancer/oncology, nuclear medicine, radiology, orthopedics, neurology, urology, ophthalmology and an ambulatory surgery center.

Scripps Green Hospital. Scripps Green Hospital, near La Jolla, with 173 acute-care licensed beds, joined Scripps Health in 1991. Scripps Green Hospital offers a wide range of clinical and surgical services including intensive care, cancer/oncology, and cardiothoracic and orthopedic surgeries. Among the specialty services are interventional cardiology, orthopedics, tissue and bone marrow transplants, solid organ transplants and general clinical research.

Scripps Clinic. Founded in 1924, Scripps Clinic is comprised of 11 clinics and facilities, contracting with the Scripps Clinic Medical Group, Inc., which has more than 350 physicians in more than 50 fields of medicine and surgery. In July 2000, Scripps Health acquired the Scripps Clinic, which had operated as a private medical group since 1995.

Scripps Health Home Care Services. Scripps Health Home Care Services is a licensed home health agency offering comprehensive home care to patients throughout San Diego County.

Affiliated Entities Not Members of the Obligated Group

The Whittier Institute for Diabetes. The Whittier Institute for Diabetes, a controlled affiliate of Scripps Health, provides resources for innovative diabetes research, education, and patient care. It is credited with the first successful replication of insulin-producing human islet cells outside the human body and led the establishment of Project Dulce, a diabetes care program for the underserved.

Scripps Clinic Health Plan Services. Scripps Clinic Health Plan Services, Inc., which operates as a managed health care business, is a wholly owned subsidiary of Scripps Clinic Physicians Organization, which is a wholly-owned subsidiary of Scripps Health.

Mercy Hospital Foundation. The Mercy Hospital Foundation's professional staff and volunteer Board of Directors collectively serve as the primary fundraising arm of Scripps Mercy Hospital.

Service Area and Competition:

Other multi-hospital systems operating in the San Diego County service area are Sharp Health Care (operating six hospitals, with an aggregate 1,605 licensed beds), U.C. San Diego (two hospitals with 538 licensed beds.), Kaiser Permanente (one hospital with 391 licensed beds) Palomar Pomerado Health (two hospitals with 662 licensed beds).

Licenses and Contracts:

Each of the Scripps Health hospital facilities is appropriately licensed for the level of care it delivers and is certified to participate in the Medicare program and in the Medi-Cal program, and each is accredited by JCAHO.

V. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Scripps has provided a description of its savings pass through in Attachment A.

VI. SECTION 15459.1 OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the Authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

Scripps has executed this certificate included as Attachment B and submitted its current list of physicians, specialties, languages spoken, telephone numbers and whether Medi-Cal and Medicare patients are accepted.

VII. COMPLIANCE WITH SEISMIC REGULATIONS:

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030.

Scripps has provided a description of its seismic requirements. See Attachment C.

VIII. OUTSTANDING DEBT:

<u>Date Issued:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 9/30/04 *</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<u>Existing Authority Debt:</u>			
1985 Series B, variable	\$53,100,000	\$53,100,000	\$ 0
1991 Series A, fixed	31,500,000	21,200,000	0
1991 Series B, variable	31,500,000	31,500,000	31,500,000
1992 Series A, fixed	40,500,000	34,875,000	0
1993 Series A, fixed	12,920,000	9,340,000	0
1998 Series A, variable	32,500,000	32,500,000	32,500,000
1998 Series B, variable	32,500,000	32,500,000	32,500,000
1998 Series C, fixed	40,230,000	40,230,000	0
2001 Series A, variable	60,000,000	56,850,000	16,515,000
<u>Other</u>			
1993 taxable bonds, fixed	34,315,000	3,455,000	3,455,000
Other		1,844,000	1,844,000
<u>Proposed Authority Debt</u>			
2005 Series A-F, variable			290,000,000
Total Debt		<u>\$317,394,000</u>	<u>\$408,314,000</u>

*Includes current portion.

IX. LEGAL REVIEW: Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

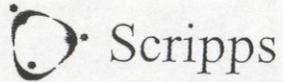
X. STAFF RECOMMENDATION: Staff recommends the Authority approve a Resolution in an amount not to exceed \$290,000,000 for Scripps Health subject to a bond rating of at least an "A" rating by a nationally recognized rating agency.

Scripps Health (Obligated Group)
Combined Statements of Operations (\$000's)
(Unrestricted)

	For the year ended September 30,		
	2004	2003	2002
Unrestricted Revenue:			
Healthcare delivery	\$ 1,218,617	\$ 1,095,286	\$ 1,083,796
Other operating revenue	43,554	54,003	53,084
Investment income	12,374	8,793	6,288
Contributions	1,146	736	1,298
Gain on sale of property	206	704	5,674
Equity released from restrictions used for operations	20,312	16,391	16,419
Total revenues	1,296,209	1,175,913	1,166,559
Expenses:			
Wages and benefits	580,556	543,698	483,563
Supplies	255,510	238,591	217,897
Services	296,765	272,957	307,767
Provision for uncollectible accounts receivable	58,354	41,770	68,594
Depreciation and amortization	53,118	48,765	53,463
Interest	10,194	10,505	12,567
Other than temporary decline in investments	-	1,164	6,072
Total expenses	1,254,497	1,157,450	1,149,923
Income from operations	41,712	18,463	16,636
Other gains (losses), net	24,920	27,585	(6,024)
Increase in unrestricted equity	66,632	46,048	10,612
Unrestricted net assets, beginning of year	464,405	418,357	407,745
Unrestricted net assets, end of year	\$ 531,037	\$ 464,405	\$ 418,357

Scripps Health (Obligated Group)
Combined Statements of Financial Position (\$000's)

	As of September 30,		
	2004	2003	2002
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 51,615	\$ 21,461	\$ 13,026
Accounts receivable, net	179,459	184,624	148,979
Other current assets	53,836	39,247	37,398
Total Current Assets	284,910	245,332	199,403
Investments	348,833	317,957	284,097
Property, plant, and equipment, net	472,243	458,047	462,575
Other assets	121,718	127,582	135,538
Total Assets	\$ 1,227,704	\$ 1,148,918	\$ 1,081,613
<u>Liabilities & Equity</u>			
Current Liabilities:			
Current portion of long term debt	\$ 7,746	\$ 27,640	\$ 7,954
Accounts payable	60,184	52,707	56,626
Accrued liabilities	149,798	128,402	123,108
Total current liabilities	217,728	208,749	187,688
Long-term debt	309,648	315,682	323,437
Other liabilities	45,511	41,086	43,964
Total Liabilities	572,887	565,517	555,089
Unrestricted equity	531,037	464,405	418,357
Temporarily restricted equity	73,463	68,688	58,151
Permanently restricted equity	50,317	50,308	50,016
Total equity	654,817	583,401	526,524
Total Liabilities & Equity	\$ 1,227,704	\$ 1,148,918	\$ 1,081,613



Tab 12 Passing on Savings

As a non-profit organization, all operating savings are transferred to the communities we serve. Today, however, over 80% of the individuals we treat are represented either by government or managed care payment programs. The savings help cover the expenses incurred in the Medicare, Medi-Cal and indigent programs in which we participate and we are able to offer lower competitive prices to the managed care programs of employers and HMO's.

Tax-exempt financing is a critical element in our long-term viability as a provider of health care services under our charitable mission.

EXHIBIT A

**CERTIFICATION AND AGREEMENT REGARDING
COMMUNITY SERVICE OBLIGATION**

PARTICIPATING HEALTH INSTITUTION ("Borrower"): SCRIPPS HEALTH

NAMES OF FINANCED FACILITIES: SCRIPPS HEALTH

MEDI-CAL CONTRACT(S): / YES / / NO

IF NO, EXPLAIN:

Bond Issue Description: *[Please request name of issue from Bond Counsel]*

1. **General Assurance:** Pursuant to Section 15459 of the California Government Code, the Borrower hereby certifies that the services of the Facility will be made available to all persons residing or employed in the area served by the facility.

2. **Compliance Requirements:** As part of its assurance under Section 15459 of the California Government Code, the Borrower agrees to the following conditions:
 - (a) To advise each person seeking services at the Facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third party payers.

 - (b) To make available to the California Health Facilities Financing Authority and to any interested person a list of physicians with staff privileges at the Facility, which includes all of the following:
 - (1) Name
 - (2) Specialty
 - (3) Language Spoken
 - (4) Whether the physician takes Medi-Cal and Medicare patients.
 - (5) Business Address and phone number.

 - (c) To inform in writing on a periodic basis all practitioners of the healing arts having staff privileges in the Facility as to the existence of the Borrower's community service obligation. Such notice to practitioners shall contain a statement, as follows:

EXHIBIT A (continued)

"This Facility has agreed to provide a community service and to accept Medi-Cal and Medicare patients. The administration and enforcement of this agreement is the responsibility of the California Health Facilities Financing Authority and this Facility."

- (d) To post notices in the following form, which shall be multilingual where the borrower serves a multilingual community, in appropriate areas within the facility, including but not limited to, admissions offices, emergency rooms, and business offices:

"NOTICE OF COMMUNITY SERVICE OBLIGATION

This facility has agreed to make its services available to all persons residing or employed in this area. This facility is prohibited by law from discriminating against Medi-Cal and Medicare patients. Should you believe you may be eligible for Medi-Cal or Medicare, you should contact our business office (or designated person or office) if you are in need of a physician to provide you with services at this facility. If you believe that you have been refused services at this facility in violation of the community service requirement you should inform [designated person or office] and the California Health Facilities Financing Authority."

- (e) To provide copies of the notice specified in paragraph (d) for posting to all welfare offices in the county where the Facility is located.

3. Medi-Cal Exceptions:

All references to Medi-Cal shall be deemed deleted from section 2 above if and to the extent any of the following conditions exist:

- (a) The Facility is of a type and in a geographic area subject to Medi-Cal contracting and, following good faith negotiations, the Borrower has not been awarded a Medi-Cal contract by the California Medi-Cal Assistance Commission;
- (b) The Facility is not of a type which provides services for which Medi-Cal payments are available; or
- (c) The Facility is, or is a part of, a multi-level facility and the health facility component of the Facility is of a size and type designed primarily to serve the health care needs of the residents of the multi-level facility.

Notwithstanding the foregoing, nothing in this Section 3 shall relieve the Borrower of its obligations, if any, under Section 1317 of the California Health and Safety code (relating to the provision of emergency service).

EXHIBIT A (continued)

4. Compliance Reports:

The Borrower agrees to make available to the Authority and to the public upon request an annual report substantiating compliance with the requirements of Section 15459 of the California Government Code. The annual report shall set forth sufficient information and verification therefor to indicate the Borrower's compliance. The report shall include at least the following:

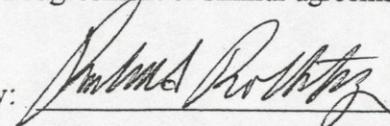
- (a) By category for inpatient admissions, emergency admissions, and where the facility has a separate identifiable outpatient service, outpatient services:
 - (1) The total number of patients receiving services.
 - (2) The total number of Medi-Cal patients served.
 - (3) The total number of Medicare patients served.
 - (4) The total number of patients who had no financial sponsor at the time of service.
 - (5) The dollar volume of services provided to each patient category listed in paragraphs (1), (2) and (3).
- (b) Any other information which the Authority may reasonably require.

5. Notices:

Notices to the Authority required or permitted by this Agreement shall be given to the Authority addressed as follows: California Health Facilities Financing Authority, 915 Capitol Mall, Suite 590, Sacramento, California 95814, or at such other or additional address as may be specified in writing by the Authority.

6. Term of Agreement:

This agreement shall terminate when the loan is no longer outstanding under the terms of the loan agreement or similar agreement securing the loan

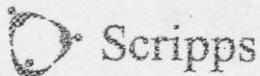
By: 
Richard Rothberger

Date: 3-25-2005

EVP/CFO
Received and Acknowledged:

California Health Facilities Financing Authority

By: _____
Executive Director



Tab 16 Seismic Upgrades

1. Describe your organization's progress toward complying with OSHPD seismic evaluation regulations.

California requires each acute care hospital in the state to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008. The January 1, 2008 deadline will be extended to January 1, 2013 if a hospital shows that capacity lost in the closure of a facility cannot be provided by another facility in the area or if a hospital agrees that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards. Scripps Health sought an extension from the 2008 deadline to 2013 and has been granted an extension to January 1, 2013.

2. Provide any available cost estimates (preliminary or final) for completing seismic upgrades, if available.

Scripps filed with OSHPD an estimated total cost of \$372 million between 5 campuses (4 hospitals on 5 campuses). La Jolla Hospital has the largest seismic requirement of \$288 million. The other hospitals are as follows: Encinitas is \$13 million, Scripps Mercy - San Diego \$44 million; Scripps Mercy- Chula Vista \$22 million; and Scripps Green \$ 5 million.

3. Discuss any proposed or finalized financing options for any identified seismic upgrades.

Scripps Health projected seismic upgrade financing needs will be incorporated in overall financial capital planning for the institution and will be included in the capital budgeting/expenditure process. The overall financial plan utilizes income derived from financial operations, capital campaigns, investments and future bond offerings. Scripps Health expects to be able to make the needed improvements from the identified sources of funds in a timely manner so that all of its acute facilities will be in compliance by deadline dates

Scripps Health's proposal is under continuing refinement and monitoring